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U.S. Family $427 Poorer in '81 than '71; Federal Taxes and Inflation Take Big Bite

US FAMILY $427 POORER THAN TEN YEARS AGO
INFLATION
TAXES
ART WOOD
AFTER TENNIEL
"Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."- THROUGH THE LOOKING GLASS

After Federal taxes and inflation have taken their bite, the American family will finish 1981 $427 poorer in real purchasing power than it was a decade ago, say economists at the Tax Foundation. This, despite a current dollar increase of more than 125 percent in the family's income. Federal tax burdens have more than tripled over the decade, while inflation has cut purchasing power by nearly 56 percent. The median U.S. family (married couple with two children, supported by one worker, employed full-time, year-round, filing a joint return) will earn an estimated $23,700 before taxes in 1981. Ten years earlier, its income was $10,314. However, Federal income taxes will claim $2,801 of those earnings this year, compared to $933 in 1971, an increase of over 200 percent in the tax burden. Social security taxes will also take a much larger bite—$1,576 in 1981 versus $406 ten years earlier, an almost 300 percent boost, according to Tax Foundation calculations. This represents a total bite in direct Federal taxes of $4,377 in 1981, an increase just shy of 227 percent over ten years. So much for taxes.

When inflation enters the picture, the family's plight becomes even more dire. An apparent "gain" of $10,348 in take-home pay for the last ten years turns into a $427 loss in spending power when inflation is

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The Front Burner

By Robert C. Brown
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"Making Tax Law in a Goldfish Bowl"

"There are two things one should not see being made," the late Winston Churchill once opined, "sausages and laws." The quote may be spurious, but the sentiment is right on target. Given proper safeguards, some things are better conducted behind closed doors. The writing of laws, specifically tax laws, is one such thing.

What of the public's right to know, freedom of information, and increased moves for open hearings and recorded votes? Each of these concepts has a place in our form of representative democracy. However, like the very abuses they were designed to correct, each is itself open to abuse and exploitation. You can't act in a closet, and you certainly can't make laws in a goldfish bowl.

Lawmaking is a political process, and, as the old cliche has it, politics is the art of the possible.

Politics involves cutting deals, horsetrading, giving a little to get a little. Batteries of microphones and banks of television lights are not conducive to such activity. To understand why, we must draw a careful distinction between *making* a law and *enacting* a law.

In the United States, the President or a duly elected Congressman or Senator can *propose* legislation. *Making* the law—that is, hammering out the concepts, refining the language, framing the exact policy implications—is a function delegated by the Constitution and Congress's own rules of procedure to specific committees of the Congress. As the lawmaking proceeds, there is inevitably a vigorous debate between the Executive and Legislative Branches as well as among the legislators themselves. At this point of the process, too much public attention is questionable, if not downright counterproductive.

Currently, the debate over taxes is being conducted up and down Pennsylvania Avenue, accompanied by a veritable war of press conferences. The glare of publicity seems to have hindered, rather than helped, the process of forging the kind of tax reform bill this nation needs. Positions harden, language acquires unintended meanings, vital elements of any sound legislation fall between the cracks because they don't play as well on camera as others.

I submit that it is time to turn off the arc lights and tape recorders and return to a quiet dialog behind closed doors. In an atmosphere of mutual respect and quiet, those charged with formulating tax and fiscal policy can debate the issues. The tax writing committees can produce the legislation. Then, once the bill or bills are reported out, the public debate can begin again. But for now, let's leave the goldfish bowls to the goldfish.

Congressman Wields Less Clout Than Voters Think, Conable Says

EDITOR'S NOTE: Barber B. Conable, Jr., Representative from the 35th District of New York, is Ranking Minority Member on the House Ways and Means Committee. He is also a member of the Joint Committee on Taxation. Congressman Conable, who was first elected to Congress in 1964, received the Tax Foundation's Distinguished Public Service Award in 1979.

Because of his long experience in the Congress and the cogency of his views on how the Legislative Branch operates, the Tax Foundation is pleased to share with our readers the thoughts expressed by the Congressman in his June 4 Washington Report.

POWER AND INFLUENCE—I wince when people, either through misunderstanding or excessive enthusiasm or deliberate exaggeration, introduce me as "a member of the POWERFUL Ways and Means Committee" or "one of the most INFLUENTIAL people on Capitol Hill." Usually kindly intended statements of this sort create an impression which is one of the banes of my public life.

Every Congressman has the same problem to one degree or another—usually his own people think of him as a sparkling exception to an otherwise unrelieved collection of klunks. Even those who are not his supporters in his district are likely to dislike him because they feel he will not use his power or influence for the benefit of the district in the manner they desire. He holds an important-sounding position, they read about him in the paper, they see him on television, he is in the powerful Federal government: ergo, he can push a button and make things happen. Conversely, if he doesn't push a button and make things happen, he must be stupid, unfriendly or, possibly, crooked.

The sometimes inexperienced people who are his political opponents say, in effect, "Look at him—all that influence—and look at what a mess we're in! Send me to Congress in his place and in two months I'll have it all straightened out." They forget that there are 534 other members of Congress, each of whom thinks he has a personal mandate from his people to "straighten it all out," but who can't do much unless in the House 217 others agree in every detail or in the Senate 50 others agree. In short, after sixteen years here I find myself musing a good deal about the nature of "power" and "influence" in the Congressional environment.

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MARK YOUR CALENDAR

Tax Foundation's 33rd National Conference and 44th Annual Dinner will be held this year on Wednesday, December 2nd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

Government Outlays Top $1 Trillion for '81; $4,678 Spent Per U.S. Man, Woman, and Child

Government spending will top $1 trillion in 1981, for the first time in U.S. history according to Tax Foundation projections. All units of government—Federal, state, and local—will spend an estimated $1.07 trillion in the current fiscal year, say Foundation economists, up from $942 billion in fiscal 1980.

That means that government will be spending $4,678 for each man, woman, and child in the United States, or $13,211 per U.S. household. Federal expenditures will continue to claim the lion's share of all outlays, a total of $710 billion—two-thirds of all government spending.

Federal spending, including grants to state and local governments, is also growing faster than spending from funds raised by states and localities, which will total an estimated $358 billion in fiscal 1981.

Since 1975, Federal spending has grown by 109 percent, while state/local spending has increased by 63 percent. Long-term trends show a relentless escalation of government spending at all levels.

In 1950, all government units were spending slightly more than $70 billion, with Federal outlays accounting for $44.8 billion, and state/local spending consuming $25.5 billion. It took 19 years for total government spending to top the $300 billion mark (in 1969). State and local governments reached that mark in just another eleven years (1980).

Because the size of households has decreased in recent years and the number of households has increased faster than the population at large, spending per household has grown less rapidly than spending per capita—a 68 percent increase from the $7,871 spent by all units of government per household in 1975, versus a 79 percent increase in dollars spent by government per capita from the $2,612 level of expenditure which prevailed in 1975.

The accompanying table gives further details.

Federal, State, and Local Government Expenditures[a]
Selected Fiscal Years, 1950-1981

Fiscal year	Amount (billions)			All governments	
	All governments	Federal	State and local	Per household	Per capita
1950	$ 70.3	$ 44.8	$ 25.5	$ 1,614	$ 468
1960	151.3	97.3	54.0	2,866	846
1965	205.7	130.1	75.6	3,581	1,069
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,871	2,612
1976	625.1	389.9	235.2	8,579	2,886
1977	680.3	430.6	249.7	9,176	3,111
1978	745.4	477.8	267.6	9,804	3,373
1979	832.4	535.7	296.7	10,764	3,726
1980[b]	942.4	618.2	324.2	11,913	4,171
1981[b]	1,068.2	710.4	357.8	13,211	4,678

[a]Grants-in-aid are counted as expenditures of first disbursing unit.
[b]Tax Foundation estimates.
Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

Congress

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"Power" should be put completely to rest in Congress. Power exists here, but it is so diffused that it can be exercised only by consent; and nobody, not even a Speaker or a Majority Leader, has consent for more than a moment under sharply delimited procedural standards. The elected leaders of a modern Congress have very little to give and therefore very little to withhold in the exercise of discipline within the group that elects them. Autocrats don't last long in positions of influence.

"Influence" exists here, but it is a relative term. It does not go with position, but with respect. Some who through survival or accident have gravitated into important-sounding posts are worked around, not with. Some who have no special positions at all have strong voices in the group and influence collective decision. But the process of decision in Congress is uncertain at best, making the influences which affect it also uncertain.

As generalists, operating mostly through committees, we vote on many things in the course of a week with which we are familiar in only a degree. Over time, we come to know that so-and-so has a good head on educational legislation, that somebody else works hard and has good judgment about military matters, or that Congressman X has political sentiments with which we generally agree. Because all legislative voting is public, observed by colleagues with interest, then, some outstanding people of good reputation with respect to some limited area of government may influence a handful of undecided or unprepared or easily swayed colleagues to vote the way they do, on some issues, particularly those issues which are not of great political significance.

Influence may also be asserted through political association with the White House, but that is also more a personal matter rather than a matter of position. An exception to this rule is that Senators, with their Constitutional power to confirm Presidential appointments, seem to have more clout in getting jobs for people in a new Administration than House members.

It's good to be in the middle of things, and Congress clearly is a place of action. It's a frustrating place for people who want to push a button and make things happen, though, and any realist had better not talk too much of power or influence among Congressmen.

Median Family Incomes Before and After Direct Federal Taxes and Inflation

1971-1981

Year	Median family income[a]	Direct Federal taxes: Income tax[b]	Direct Federal taxes: Social security	Direct Federal taxes: Total	After-tax income: Current dollars	After-tax income: 1971 dollars[c]
1971	$10,314	$ 933	$ 406	$1,339	$ 8,975	$8,975
1972	11,152	982	468	1,450	9,702	9,392
1973	11,895	1,098	632	1,730	10,165	9,264
1974	13,004	1,267	761	2,028	10,976	9,014
1975	14,156	1,172	825	1,997	12,159	9,149
1976	15,016	1,388	878	2,266	12,750	9,071
1977	15,949	1,466	933	2,399	13,550	9,056
1978	17,318	1,717	1,048	2,765	14,553	9,034
1979	19,097	1,876	1,171	3,047	16,050	8,955
1980	20,900[d]	2,197	1,281	3,478	17,422	8,563
1981	23,700[d]	2,801[e]	1,576	4,377	19,323	8,548

[a]Median income for all families with one earner employed full-time, year-round.
[b]Married couple filing joint return, two children.
[c]Adjusted by Consumer Price Index of the Bureau of Labor Statistics.
[d]1980 and 1981 estimated by Tax Foundation.
[e]Assumes no change in current law.

U.S. Family

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factored in. Measured in 1971 dollars, today's median family survives on an annual income of $8,548. In 1971, that family's paycheck, adjusted for inflation, had a purchasing power of $8,975. This means that the family can buy about 5 percent less goods and services in 1981 than it could ten years ago.

Unlike Alice's experience in Wonderland, the American family may run as fast as it can, but it still can't stay even. For ten years, it has been slipping slowly backwards in the struggle to keep its income from eroding.

The accompanying table details the impact of inflation and Federal taxes on family income.

Local Revenue Triples in Decade; Growth of Property Taxes Slows

General revenue of local governments reached $212 billion in fiscal 1979 (latest year reported), nearly three times the $72 billion recorded in 1969. This was the steepest rate of growth in local general revenue to be recorded for any decade on record in data going back to 1902, according to Tax Foundation economists.

Intergovernmental aid from Federal and state funds reached almost $95 billion in 1979, accounting for nearly $69 billion (or 49 percent) of local revenue growth for the decade. In 1979 these intergovernmental aids made up 45 cents of every dollar of local general revenue, up from 36 cents ten years earlier. Direct Federal aid rose from just over $2 billion in 1969 to almost $21 billion in 1979, an increase of 818 percent. State aid increased from $24 billion to $74 billion, or 211 percent.

Property taxes remained the largest segment of locally collected revenue, rising from $30 billion in 1969 to more than $62 billion in 1979. This 110 percent increase, however, was the smallest level of growth recorded for any major revenue source. As a result, the relative share of local general revenue derived from property taxes slid from 41 cents per dollar of revenue in 1969 to about 29 cents in 1979.

Local sales and gross receipts taxes more than quadrupled during the decade, but still accounted for only a small share of total local general revenue—about 5 cents per dollar in 1979.

Other local taxes, including income taxes and licenses, accounted for less than 4 cents per dollar of general revenue in 1979, about the same share as in 1969.

In 1979 local governments raised nearly $37 billion (17 percent of total general revenue) through charges for public services and other nontax receipts. This compares with $11 billion in 1969, representing an increase of 230 percent. The table below supplies details.

Composition and Growth of Local Government Revenue by Source

Fiscal Years 1969 and 1979

Source	Amount (billions) 1969	Amount (billions) 1979	Percent of total 1969	Percent of total 1979	Percent change 1969-1979
Total general revenue, all sources	$71.9	$212.0	100.0	100.0	194.7
Total, own sources	45.9	117.2	63.7	55.3	155.6
Total, taxes	34.8	80.6	48.3	38.0	131.8
Property tax	29.7	62.5	41.3	29.5	110.3
Sales and gross receipts	2.5	10.6	3.4	5.0	328.3
Other taxes and licenses	2.6	7.6	3.6	3.6	189.2
Charges and miscellaneous	11.1	36.6	15.4	17.3	230.4
Total, intergovernmental aid	26.1	94.8	36.3	44.7	263.4
From states	23.8	74.2	33.1	35.0	211.1
From Federal	2.2	20.6	3.1	9.7	818.3

Source: Bureau of the Census, Department of Commerce; and Tax Foundation computations.

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